Alberta

GAS ROYALTY OPERATIONS INFORMATION BULLETIN

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PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT

ANNOUNCEMENTS

Statutory Requirement and Recalculation of 2012 Royalty

A production year becomes statute barred on December 31st, four years after the end of a production year. Once a year has become statute barred, calculation or recalculation of royalty does not occur on a monthly basis. Section 38 of the Mines and Minerals Act provides for recalculation of royalty that can be initiated in two ways:
1. on the department's initiative in conjunction with an audit or examination, or
2. at the request of a royalty payer.

Audits in Progress

Non-operator partners are advised that certain 2012 Allowable Operating and Capital Costs (including costs reported at facilities where fractionation occurs), Custom Processing Fees, Custom Processing Adjustment Factor (CPAF), Enhanced Oil Recovery Schemes, CO2 Project Credit claims and volumetric reporting discrepancy audits are currently in progress.

It is anticipated that these audits will be completed before December 31, 2016. However, should circumstances warrant a completion of these audits in 2017, we will no longer provide a list of the facilities affected by the outstanding custom processing adjustment factor review and the AC2 review. Please note that all facilities and all facility cost centres are open for a potential review.

Royalty clients are also reminded that amendments received by the department in the fourth year following the production year may be subject to audit. If the amendments are received late in the fourth year and insufficient time is available for the department to commence a review of the amendments prior to the end of the year, the department reserves the right to commence the audit at the beginning of the fifth year.

If you have any questions, please contact Robert Sonego, Manager, Compliance & Assurance, Calgary, at 403.297.8774.

Industry Recalculation of 2012 Royalty

Industry initiated royalty recalculation requests for the 2012 production year must be submitted in writing to the attention of Olga Marocco, Manager, Volumetric & Cost Reporting, Gas Royalty Operations and must include the information listed below **on or before December 31st, 2016.**

Due to office closure during December 26, 2016 to January 2, 2017 inclusive, any enquiries concerning the extension of the 5th year for amendment submission will only be addressed on or before **December 23rd, 2016.** Submissions will be accepted up to and including **December 31, 2016**, but should there be any deficiencies, the request will be denied.

- Identification of the recalculation facility or facilities
- A list of the royalty variables proposed for recalculation
- The reason for the recalculation
- The production year of the recalculation

- An order of magnitude estimate (i.e. >$100,000, >$1 Million, >$2 Million, etc.,) of the recalculation requested
- Identification of all royalty clients that may be impacted by the request (this is necessary, especially in situations where volumes may be cascaded to another client who is expected to respond to the cascade)
- Confirmation from the operator that the affected partner(s) have been notified
- A sample copy of the submission pertaining to a particular production month in paper or electronic format (e.g., excel)

If the request meets the department's terms and conditions for recalculation, it will be approved. A request made during the fourth year following the production year, must be completed before the end of the fifth year, with a reasonable time for a review by the department, prior to the end of the fifth year.

If you have any questions regarding this process, please contact the Volumetric & Cost Reporting team, as identified in Section E of this bulletin.

Update to Reporting of Royalty Paid Volumes

Application and eligibility rules for usage of the WG99999 stream ID has been amended, new eligibility and business rules have been published in the November 2016 Information Bulletin. These business rules will supersede all WG99999 rules published in the February 2015 Information Bulletin.

Application and eligibility requirements for use of WG99999

WG99999 is a stream ID used for reporting royalty paid gas and/or gas products that re-enter the royalty network and re-trigger royalty charges.

Applications for approval of WG99999 usage can be obtained from Gas Royalty Operations (GRO). GRO requires a written application including the following supporting documentation:

- Reporting schematic;
- Invoice of purchased products (arm's length purchase);
- Completion report;
- Flowback report;
- 3rd party gas and/or product analysis; and
- Other information may be requested as needed.

All applications are reviewed on a case-by-case basis. Any application that fails to meet these criteria will be denied and royalty will be charged.

Eligibility criteria that must be met for approval includes, but not limited to:

- The activity being essential to producing, gathering and processing native gas or gas products; and are only approved where the second royalty trigger is unavoidable when producing and getting native production to market;
- Auditable proof that royalty was paid on the volumes that re-enter the network;

- The use of purchased products coming into the network is a royalty liable product (Gas, Ethane, Propane, Butane, Pentanes-plus); this excludes products such as load oil or lite-mix;
- Royalty is re-triggered on the purchased or royalty paid volumes; and
- Applications will only be approved for the gas and/or gas products that are royalty paid or purchased. That is, if C5-SP is the royalty paid product, C5-SP will be the only product approved for reporting at WG99999 – no Gas Equivalent Volumes (GEV) will be allowed.

All WG99999 applications will be reviewed and evaluated based on its own merit.

Revised WG99999 business rules are identified in Appendix B and are effective immediately.

Office Closures Christmas Period

The Royalty Operations Branch will be closed from December 26th, 2016 to January 2nd, 2017. This is in accordance with the Government of Alberta's new holiday season schedule. Please refer to the Monthly Information article entitled ***September 2016 Royalty Due December 31, 2016*** for additional information regarding royalty payment.

The Calgary Office located at AMEC Place, 801 - 6th Ave. SW is closed from December 26th, 2016 to January 2nd, 2017. Payment can be dropped off in the Overnight Dropbox during the time of closure. All mail and revenue received in the drop box between December 24th, 2016 and January 2nd, 2016 will be date stamped for December 23rd, 2016 anything after will be the normal process.

MONTHLY INFORMATION

Re-Allocation of Assigned Volumes (RMF2s)

As per the *Alberta Natural Gas Royalty Guidelines (2009)*, Chapter III, Section 2.2.1, Royalty clients may submit an RMF2 form if they wish to reassign all or part of their Crown and/or freehold volumes of gas and gas products allocated to well events, well groups, units, or injection schemes. The RMF2 Listing report identifies the royalty clients' active RMF2s currently in our system as well as the date that the form was last used to re-assign volumes.

Royalty Clients should review their RMF2 reports issued each month, and are requested to submit termination dates for those RMF2s that are no longer required. The number of unused documents continues to increase. Part 3.4 of the RMF2 form requires a Termination Date be completed and it should be defined for a reasonable timeframe. The RMF2 is not intended for the facilitation of sales activity between clients. In those instances, the OAF can be changed in order to facilitate a smooth transition of responsibility for the production volumes. As a reminder, the department will require definite termination dates applied to each form (Part 3.4). If the termination date is not on the form, it will be returned to the submitter. The Department expects that this will reduce the number of obsolete documents in our system.

If you require any additional information please contact VCR at VCR@gov.ab.ca.

Pricing for Gas and Gas Products

For pricing on gas, gas products, and transportation information for September 2016, please refer to the Information Letter.

The monthly default sulphur price for **September 2016** is **$38.21.** Below are the annual sulphur default prices:

2012	2013	2014	2015
$98.02	$53.60	$86.16	$104.51

September 2016 Royalty Due December 31, 2016

Royalty clients are to remit the total amount payable shown on the December 2016 Statement of Account by December 31, 2016. If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided. Current period interest will not be charged on current invoice charges for the production month of September if it is paid in full by December 31, 2016.

The December 2016 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your September 2016 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.

Note: If the due date falls on a non-business day, the next business day will apply as the due date *except for the month of March due to the Government of Alberta's fiscal year end.* In this situation, the due date will apply previous to the non-business day as the due date.

Cheques are made payable to the Government of Alberta and must contain the G94 account number as reflected on the Statement of Account.

October 2016 VA4 due December 15, 2016

The VA4 forms for the production month of October 2016 are due in the department offices by December 15, 2016.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

Petrinex Deadline Submissions

The Petrinex deadline for SAF, OAF, and Volumetric submissions are posted on the Petrinex website "Reporting Calendars" under Calendars. ***Changes to this calendar will be posted on the Petrinex website home page in "Broadcast Messages."***

Interest Rate November 2016

Alberta Energy's interest rate for November 2016 is **3.70%**

August Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the August 2016 billing period was:

First Time Provisional Assessment	Reversals of Provisional Assessments (Net)	Net Provisional Assessment
$510,469.30	($1,045,975.21)	($535,505.91)

August Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the August 2016 billing period.

Forms	Penalty Charges	Penalty Reversals	Net Penalty Charges for 2016/08
AC2	$159,500	($70,700)	$88,800
AC5	$0	$0	$0
NGL*	$0	$0	$0
VA3	$0	$0	$0
VA4	$0	$0	$0
Total	**$159,500**	($70,700)	**$88,800**

* NGL Price Reporting

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the August 2016 billing period, the potential royalty dollar impact is estimated as $1.4 million, for the production months of March through August 2016.

NOTE: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Well Event Measured Depth Determination Letter

The department will issue via Petrinex to facility Operators a "Well Event Measured Depth Determination Letter" on November 1st and November 17th, 2016. This letter identifies the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not listed on the letter and does not have a confirmed MD will receive a DF of 1. All changes to the MD are applied on a go forward basis only. When the changes to the MD

are confirmed by the department, a letter is issued to a facility operator who reports changes through Petrinex to well event attributes affecting MD. Facility operators are advised to submit well event attribute changes on or before the last day of the calendar month in order to ensure timely determination of MD.

NGDDP Confidential Wells

Wells designated as "confidential" will be reviewed prior to the removal of the "confidential" status, if the directional surveys and completion reports are provided to the department. Send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Marilyn Wieliczko in Gas Royalty Features at 780.422.9270.

INFRASTRUCTURE DATA

Business Associate ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, and includes Working Interest Owner (WIO) role start/end dates.

This report is also published daily on the Petrinex website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.
- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.
- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry/Crown Land Data at 780.422.1395 or CrownLandDataSupport@gov.ab.ca if you have any questions regarding the information supplied in this article.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client status changes, names, or IDs, please contact Client Registry/Crown Land Data at 780.422.1395 or CrownLandDataSupport@gov.ab.ca.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under Facility Royalty Trigger Factors and Meter Station Ties.

REMINDERS

Modernized Royalty Framework Information Session

The Department of Energy will be conducting two information sessions outlining the changes resulting from the announcement of the Modernized Royalty Framework. Some of the topics to be presented are:

1) How C* is calculated
2) Defining the maturity threshold
3) Programs – what are the Enhanced Hydrocarbon Recovery Royalty program and the Emerging Resources Royalty Program
4) Impact to Industry reporting

Please register for one of the following sessions:

Thursday, December 8, 2016 FULL
9:00 am to 12:00 pm
Doors open at 8:30 for registration
Presentation begins at 9:00 am

Wednesday, January 11, 2017
9:00 am to 12:00 pm
Doors open at 8:30 for registration
Presentation begins at 9:00 am

Location: Both sessions will be held at:
ConocoPhillips Conference Centre
Gulf Canada Square
3rd floor Auditorium
401 – 9th Avenue SW
Calgary, Alberta

To register, email ODEdmOp@gov.ab.ca by end of day Thursday December 1st, 2016 for the December 8th session, or Thursday January 4th for the January session. Please include in the subject line: "MRF Information Session". As seating is limited, kindly indicate the number of attendees from your company, their names and email addresses. As well, for each attendee, please indicate which session they will be attending.

For further information please contact:

Sharon Wong, Senior Advisor
Resource Revenue and Operations
Phone: 780.422.9356
Email: Sharon.wong@gov.ab.ca

Department Initiated Amendments for 2012 Royalty

The following is under review by the department for the production year 2012 and will be completed in 2017:

- Accuracy of royalty related volumetric submissions, including but not limited to: PURDISP/PURREC reporting and ABWG 99999 allocations.
- Accuracy of royalty related gas cost allowance submissions.

If you have any questions regarding this process, please contact the Control Assurance team at ControlAssurance.Energy@gov.ab.ca.

Alberta Natural Gas Guidelines (2009) – Clarification of Appendix H – Allowable and Non-Allowable Operating Costs

Please note the following clarification of Allowable/Non-Allowable Operating Costs relating to indirect costs:

As per the **Alberta Natural Gas Guidelines (2009)**, Appendix H, and page H-2: listed under 3.1 as non-allowable operating costs approved by the Minister are "Operating costs that are deemed, indirect or estimated."

For purposes of interpreting what is an indirect operating cost, they are all costs that are not direct costs. In determining what a direct cost the department applies the following considerations:

Direct costs:

- can be traceable to a specific eligible capital cost,
- arise from operating eligible capital assets within a specific FCC,
- relates to materials, labour and expenses related to the gathering, compressing or processing Crown volumes,
- interacts with the production cost immediately,
- is a cost that can be completely attributed to the production of specific goods, and
- must be incurred within the Crown royalty network.

The identification of direct costs implies a means-end framework; the cost must have been incurred through an applied process (the means) that directly contributed to the production of Crown royalty volumes (the end). Royalty clients should apply their means-end framework consistently, which is subject to rational justification during an audit. In order for a cost to be seen as direct there must be a strong linkage between the cost and the operation of a specific facility cost centre.

Indirect costs are those that do not meet the criteria as a direct cost.

An example of the application of the above principles is the cost of direct labour. For instance, labour costs that are fixed (i.e. a monthly salary or hourly wage) would be treated as a direct cost to the extent of time the employee is working on an eligible capital asset. Corporate wide incentive or bonus plans would be ineligible, as the cost does not interact with the production

process immediately, cannot readily be predetermined and the value assigned to the plan is dependent upon activities beyond the royalty network.

Re-Allocation of Assigned Volumes (RMF2s)

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If you require any additional information please contact VCR at VCR@gov.ab.ca.

Natural Gas Liquids Buyer Identification

The Natural Gas Liquids (NGL) Reference Prices represent the field-based provincial reference prices, which are calculated using information submitted by all NGL buyers. As with every program, we strive to maintain our database to ensure inputs to the calculation are kept as current as possible. In this regard, we are seeking your assistance with identifying NGL buyers that purchase product at Alberta field locations. Please review the attached list of NGL buyers (Appendix A) that are already known to us and send us an email with the names and contacts of NGL buyers that are not on the list.

We would like to contact the new companies as soon as possible to enable them to prepare for the reporting requirements.

Contacts

For further information or to submit names and contacts of NGL buyers please contact:

Terry Rayne
Director
Pricing and Analysis
Phone: 403.297.5467
Email: Terry.Rayne@gov.ab.ca

Winnie Tam
Team Lead
Pricing and Analysis
Phone: 403.297.5427
Email: Winnie.Tam@gov.ab.ca

BUSINESS CONTACTS

Quick Reference

Group	Email
Petrinex Service Desk	Petrinexsupport@Petrinex.ca
Client Registry / Crown Land Data	CrownLandDataSupport@gov.ab.ca
Volumetric & Cost Reporting	VCR@gov.ab.ca
Management Information	ManagementInformation.Energy@gov.ab.ca
Gas Royalty Accounting	GasRoyaltyAccounts.Energy@gov.ab.ca
Gas Royalty Rapid Transit Payments	G94Deposit@gov.ab.ca
Gas Royalty Features	GasRoyaltyPrograms@gov.ab.ca

Petrinex Service Desk

The focal point for communications regarding preparations for, access to, or utilization of Petrinex is the Petrinex Service Desk, or Petrinex Support.

Phone: 403.297.6111 or 1.800.992.1144
Fax: 403.297.3665
Email: Petrinexsupport@Petrinex.ca
Website: www.Petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting (V&CR) is the Front Line of contact for inquiries relating to volumetric and cost reporting as well as gas royalty calculation processes. V&CR is made up of three teams as shown below:

Team	Team Lead
Volumetrics	Nicole Karpan
Costs	Sheruna Naidoo
Process Support	Penny Calen

Gas Royalty Voicemail: 780.422.8727
Fax: 780.427.3334
Alberta Toll Free: 780.310.0000
Gas Royalty Email: VCR@gov.ab.ca
Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

Management Information

All inquiries or requests that relate to royalty information (e.g. Information Letter, Information Bulletin and other Department of Energy's Natural Gas website publications) and questions related to Commercial Storage and Farm Gas should be forwarded to the Management Information Team at ManagementInformation.Energy@gov.ab.ca.

Gas Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account, Collections and Royalty Deposits) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Gas Royalty Features

All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forward to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

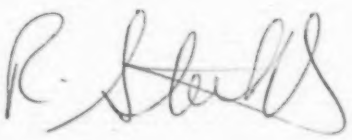
Reference Prices and Valuation Allowances Calculation Information

For information related to Natural Gas and Natural Gas Liquids reference prices, and Sulphur valuation submissions (VA3 and VA4), contact the Pricing & Analysis Team located at the Alberta Energy office in Calgary:

Pricing & Analysis
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2
Telephone: 403.297.5514
Fax: 403.297.5400
Email: GasValuation.Energy@gov.ab.ca

Alberta Energy Internet Webpage

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet webpage: www.energy.alberta.ca. From "Our Business", navigate to "Natural Gas", "About Natural Gas", "Prices", and "Alberta Natural Gas Reference Price (ARP)". In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under "Our Business", navigate to "Natural Gas", "Legislation, Guidelines & Policies".



Richard Stokl
Director, Gas Royalty Operations
Royalty Operation

Appendix A

Natural Gas Liquids Purchasers

Acme Energy Marketing Ltd.
Alliance Energy Services LLC
Altagas Ltd.
ARC Resources Ltd.
BP Canada Energy Group ULC
Canadian Enterprise Gas Products Ltd.
Canadian Natural Resources Ltd.
City Service Valcon, LLC
ConocoPhillips Canada Resources Corp.
Elbow River Marketing Limited
Gestion Energie Quebec Inc.
Gibson Gas Liquids Partnership
Husky Oil Operations Limited
Imperial Oil Resources
Keyera Energy Ltd.
Kiros Energy Marketing ULC
Pembina NGL Corporation
Pengrowth Energy Corporation
Petrogas Marketing Ltd.
Plains Midstream Canada
Repsol Oil & Gas Canada Inc.
Shell Chemicals Canada
Superior General Partner Inc.
Targa Canada Liquids Inc.
Tidal Energy Marketing Inc.
Tidewater Midstream and Infrastructure Ltd.

Appendix B

WG99999 General Business rules:

1. Approved applications will be effective the first day of the production month in which the application was received. For example, an application received by the department on calendar December 17, 2015 will have the effective date set at production month October 1, 2015. Retroactive applications will not be accepted.

2. Applications must be submitted on an annual basis, to be submitted on or before January 1 of each year.

3. Shrinkage calculation will include the removal of fuel, flare, vent, carbon dioxide, helium, nitrogen. Where shrinkage is not fairly represented for the activities taking place, it may be assigned at a predetermined rate.

4. The reporting facility for applications must be at the battery level. Alternate reporting facilities will be reviewed on a case by case basis.

5. The native gas stream should not be altered before royalties have been triggered, exceptions will be considered for gas lift and pipeline spec applications.

6. If the reporting wells are eligible for other programs such as Enhanced Hydrocarbon Recovery Program (EHRP), it will not qualify for WG99999.

7. All reporting to WG99999 must be auditable by the department. Volumes must be evidenced by reporting in Petrinex prior to application submission.

8. Reporting a SAF/OAF using "From/To ALL" will not be accepted for AB WG 99999.

9. Onus is on the applicant to demonstrate the grounds of the application.

10. Substantial changes to the business as it pertains to the WG99999 application should be reported immediately.

11. WG 99999 applications may be retro-actively terminated and WG99999 ineligibility may occur if upon audit or annual review over-allocation to WG99999 is found, relevant information is withheld, or other misrepresentation is discovered.

WG99999 Fuel Applications

1. Supported by Natural Gas Royalty Regulations (NGRR) AR 221/2008, Section 13 (1), WG99999 fuel applications may be approved for:

    a. gas consumed as fuel for compressing, gathering or processing of natural gas; (and/or)
    b. gas consumed as fuel in operations for the recovery of oilsands provided producing source wells are included in the oilsands agreement.

2. The reporting facility on an application should be the point of fuel consumption, exceptions will be reviewed on a case by case basis.

WG99999 Gas lift/Pipeline Spec Applications

When allocating gas to the WG99999 stream, the product in-stream components and heat to volume ration should remain consistent with the purchased product.

WG99999 Well Fracturing Applications

Effective January 1, 2017, with the implementation of the Modernized Royalty Framework, well fracturing is no longer eligible for usage of WG99999. This also pertains to wells that qualify for early opt-in.